

Minutes of the Executive Compensation Committee of the  
Board of Directors of CareFirst, Inc., held May 24, 2001

Members Present: Joe Haskins, Ed Baran (by Telephone), George Wilkes

Also Present: Dan Altobello, William Jews, Mark Muedeking, of Piper  
Marbury, Rudnick, & Wolfe, LLP, and Stuart Smith, Credit  
Suisse

The Compensation Committee held a special meeting to further explore the compensation issues for the management team in connection with a strategic initiative based on questions and requests for clarification from the Board of Directors. Mark Muedeking of Piper, Marbury, Rudnick & Wolfe, LLP, presented an updated presentation through the use of a handout which is made a part of these minutes.

**Executive Compensation Discussion**

**Concerns**

- The potential buyer has expressed a strong interest in retaining management after a Change of Control.
  - Allowing large severance at closing may create a disincentive to employment with the buyer.
- Payment acceleration of retirement/deferred compensation benefits creates the illusion of payment made solely on account of a Change of Control.
  - These amounts have been earned and vested over a number of years of service and would be paid at retirement in any event.
- The proposed transaction bonus is designed to align the interests of management with the interests of the stakeholders.
  - The proposed transaction bonus would create an incentive to close a transaction favorable to the stakeholders.

**Proposal**

- Modify employment agreements to require executive to work at least one year for the buyer before becoming eligible to receive Change of Control Severance benefits upon voluntary termination.
  - Assists buyer in retaining management
- Pay retirement and deferred compensation benefits only at retirement; do not accelerate payment.
  - Modify definition of retirement to allow for "early retirement" after employment with buyer
- Add transaction bonus to align the interests of management with the interests of the stakeholders.
  - Could be paid all at closing or in staged intervals based on interim milestones

The committee then reviewed the specific compensation amounts for each executive.

Following this review, the committee approved the recommendation and agreed to make this presentation to the combined Strategic Planning and Finance Committees.

Respectfully submitted,



Sharon J. Vecchioni

# COMPENSATION DISCUSSION

**Mark Muedeking**



**PIPER  
MARBURY  
RUDNICK  
& WOLFE LLP**

OCC 016338

# CareFirst, Inc.

## POTENTIAL PAYMENTS IN CONNECTION WITH A CHANGE OF CONTROL

	<u>CEO</u>	<u>EVPs</u>	<u>TOTAL</u>
<b>SEVERANCE UNDER EMPLOYMENT AGREEMENTS</b>			
• Payment only upon actual termination of employment in connection with a Change of Control	\$11.8 M	\$11.67 M	\$23.47 M
<b>RETIREMENT BENEFITS/DEFERRED COMPENSATION</b>			
• Payment of existing obligations accelerated only upon actual termination of employment in connection with a Change of Control	\$5.7 M	\$9.38 M	\$15.08 M
<b>TOTAL</b>	<b>\$17.5 M</b>	<b>\$21.05 M</b>	<b>\$38.55 M</b>

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All amounts projected as of April 1, 2003

## **CONCERNS**

### **The Potential Buyer has Expressed a Strong Interest in Retaining Management After a Change of Control.**

- Allowing large severance at closing may create a disincentive to employment with the Buyer.

### **Payment Acceleration of Retirement/Deferred Compensation Benefits Creates the Illusion of a Payment Made Solely on Account of a Change of Control.**

- These amounts have been earned and vested over a number of years of service and would be paid at retirement in any event.

### **The Proposed Transaction Bonus is designed to Align the Interests of Management with the Interests of the Stakeholders.**

- The Proposed Transaction Bonus would create an incentive to close a transaction favorable to the Stakeholders.

OCC 016340

## **PROPOSAL**

**Modify Employment Agreements to Require Executive to Work at Least 1 Year for the Buyer Before Becoming Eligible to Receive Change of Control Severance Benefits upon Voluntary Termination.**

- **Assists Buyer in retaining Management**

**Pay Retirement and Deferred Compensation Benefits Only at Retirement; Do Not Accelerate Payment.**

- **Modify definition of retirement to allow for "early retirement" after employment with Buyer**

**Add Transaction Bonus to Align the Interests of Management with the Interests of the Stakeholders.**

- **Could be paid all at Closing or in staged intervals based on interim milestones**

# PROPOSAL\*

	<u>AT OR IN STAGES BEFORE CLOSING</u>	<u>AFTER 1 YEAR EMPLOYMENT WITH BUYER</u>	<u>RETIREMENT</u>
Transaction Bonus <sup>†</sup>	\$9.1 M (CEO) \$24.7 M (Total) <sup>‡</sup>		
Change of Control Severance Payments		\$11.8 M (CEO) \$23.87 M (Total)	
Retirement & Deferred Compensation			\$5.7 M (CEO) \$15.08 M (Total)

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\* All amounts projected as of April 1, 2003

<sup>†</sup> Assuming a \$1.3 Billion transaction

<sup>‡</sup> Includes CEO and all EVPs

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# CareFirst, Inc.

## Potential Change of Control Payments

BENEFIT	WJ	DW	GD	MC	JP	SV	LR	TOTAL
<b>EXISTING SUPPLEMENTAL PENSION &amp; DEFERRED COMPENSATION</b> (Projected as of April 1, 2003)								
Existing Supplemental Pension Benefit (current present value)	\$5.3M	\$2.9M	\$1.3M	\$2.0M	\$1.4M	\$1.0M	\$4M	\$14.3M
Existing Deferred Compensation (deferred payment of long-term bonus awards earned through 2000)	\$4M	\$1M	\$1M	\$0.06M	\$0.07M	\$0.05M	\$0	\$7.8M
<b>TOTAL RETIREMENT/DEFERRED BENEFITS</b>	<b>\$5.7M</b>	<b>\$3.0M</b>	<b>\$1.4M</b>	<b>\$2.06M</b>	<b>\$1.47M</b>	<b>\$1.05M</b>	<b>\$4M</b>	<b>\$15.08M</b>

BENEFIT	WJ	DW	GD	MC	JP	SV	LR	TOTAL
<b>POTENTIAL SEVERANCE PAYMENTS DUE UPON ACTUAL TERMINATION OF EMPLOYMENT IN CONNECTION WITH A CHANGE OF CONTROL AND SUBSTANTIAL DIMINUTION OF DUTIES</b> (Projected as of April 1, 2003)								
3 x Salary plus Annual Bonus	\$5.7M	\$1.2M	\$1.0M	\$0.9M	\$0.8M	\$0.7M	\$1.1M	\$11.4M
Pro-rated Annual Bonus for Year of Termination	\$0.3M	\$0.06M	\$0.05M	\$0.04M	\$0.04M	\$0.03M	\$0.05M	\$0.57M
Outstanding Long-term Bonus Awards	\$1.0M	\$0.4M	\$0.3M	\$0.3M	\$0.3M	\$0.2M	\$0.4M	\$2.9M
Increase in Supplemental Pension Benefit	\$2.3M	\$0	\$1.0M	\$0	\$0	\$0	\$1.7M	\$5.0M
Potential Excise Tax Gross-Up Payment (payable to IRS/State)	\$2.5M	\$0	\$0	\$0	\$0	\$0	\$1.1M	\$3.6M
<b>TOTAL POTENTIAL SEVERANCE PAYMENTS IF EMPLOYMENT TERMINATES</b>	<b>\$11.8M</b>	<b>\$1.66M</b>	<b>\$2.35M</b>	<b>\$1.24M</b>	<b>\$1.14M</b>	<b>\$0.93M</b>	<b>\$4.35M</b>	<b>\$23.47M</b>

BENEFIT	WJ	DW	GD	MC	JP	SV	LR	TOTAL
<b>POTENTIAL MERGER INCENTIVE BONUS</b>								
Total Bonus Award Payable for Successful Closing (Assuming \$1.3 Billion Transaction)	\$9.1M	\$3.6M	\$2.3M	\$2.3M	\$2.8M	\$2.3M	\$2.3M	\$24.7M

<b>TOTAL</b>	<b>\$26.6M</b>	<b>\$8.26M</b>	<b>\$6.05M</b>	<b>\$5.6M</b>	<b>\$5.41M</b>	<b>\$4.28M</b>	<b>\$7.45M</b>	<b>\$63.65M</b>
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<sup>1</sup> In addition, health, life insurance and miscellaneous benefits are continued during the severance period.

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